

Finance Advisory Committee

March 1, 2006

JLBC

FY 2006 Revenue Collections

Strong Year-to-Date Performance

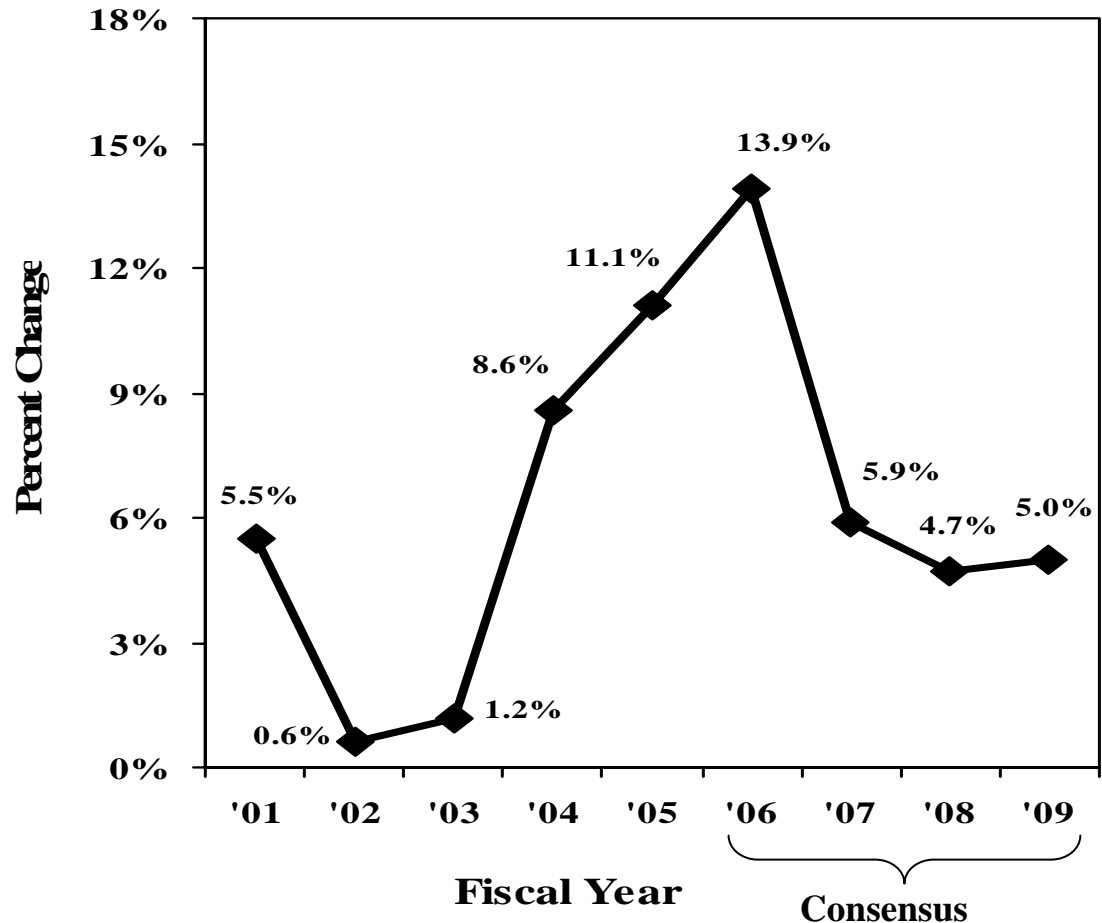
- Since release of January JLBC Baseline, General Fund revenue collections have remained strong.
- January TPT (from December) grew by 18% and January estimated income tax payments grew by 52%.
- January collections are \$91 million above the revised JLBC baseline forecast, released in early January.
- Year-to date base revenue collections are up 19.1% compared to last year.

Sales Tax Growth Rate

Consensus Projects 13.9% for FY 2006

- Probably Low as it Only Requires 8.5%
Growth for Remaining Months

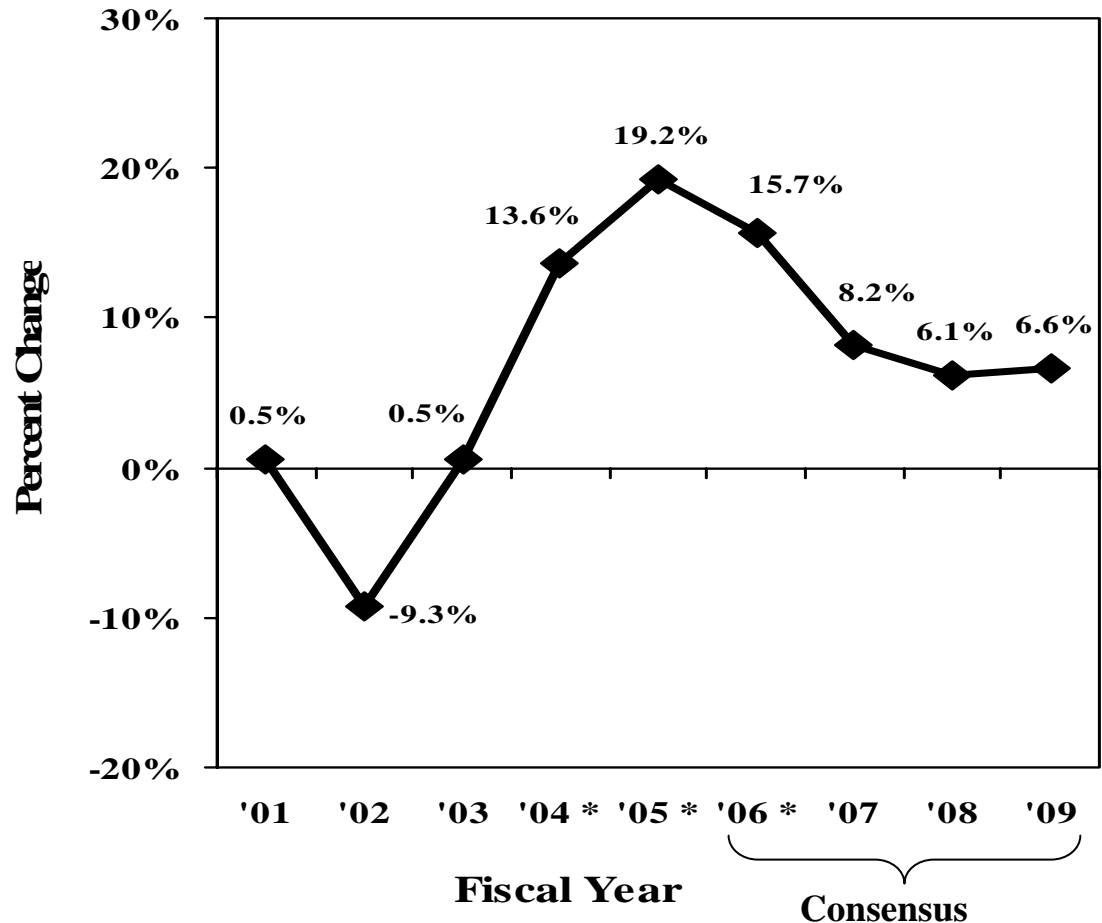
- '06 YTD rate = 17.2%
- '06 JLBC revised = 15.8%
- Consensus projecting slowing growth rates - double-digit growth in '05 actual and '06 estimate primarily due to construction.



Individual Income Tax Growth Rate

- Assumes 8% Withholding Growth – Has Been 10-12%
- Assumes Refunds Grow More Than Payments in 4th Quarter

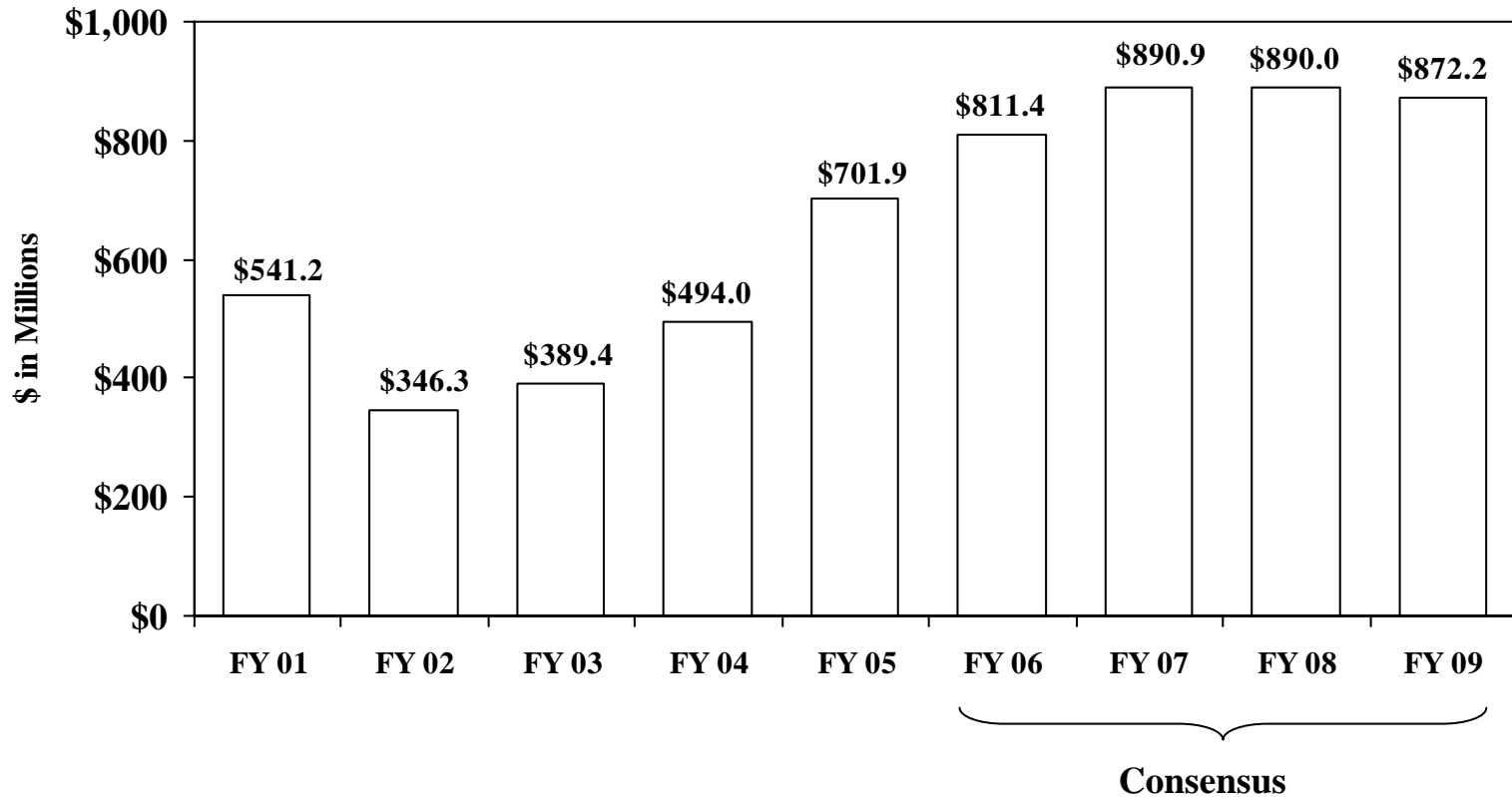
- '06 YTD rate = 19.2%*
- '06 JLBC revised = 16.8%



* FY 04, FY 05, and FY 06 rates adjusted for \$76 M in underwithholding in FY 04 and \$76 M one-time increase in FY 05.

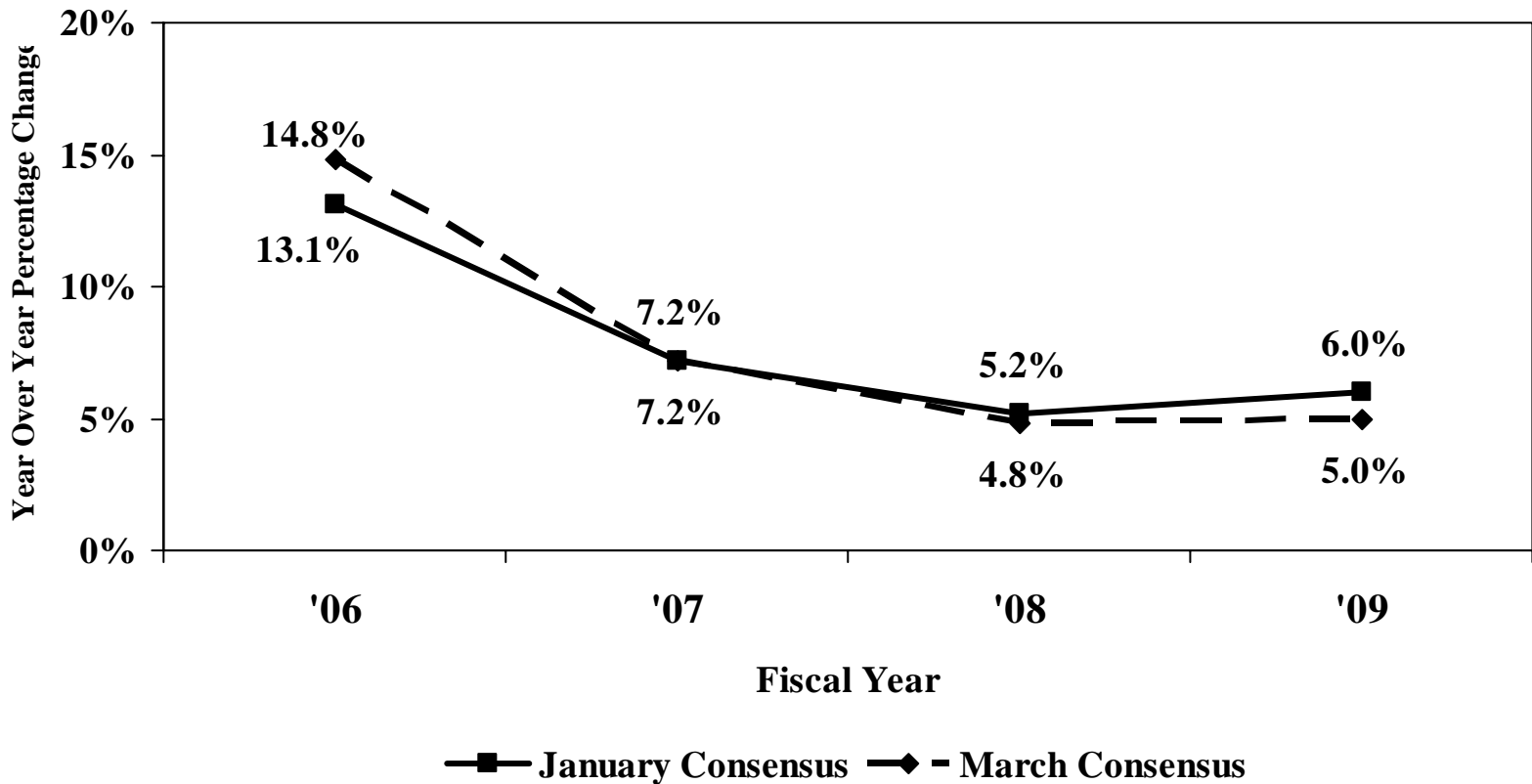
Corporate Income Tax Collections

- FY 2006 Collections of \$811 M Would
Require 12.5% Growth for Rest of Year



“Big 3” Consensus FY 2007 Forecast Has Remained the Same Since January

- FY 2006 Consensus Has Improved Since January, But May Be Low Due to Recent Collections

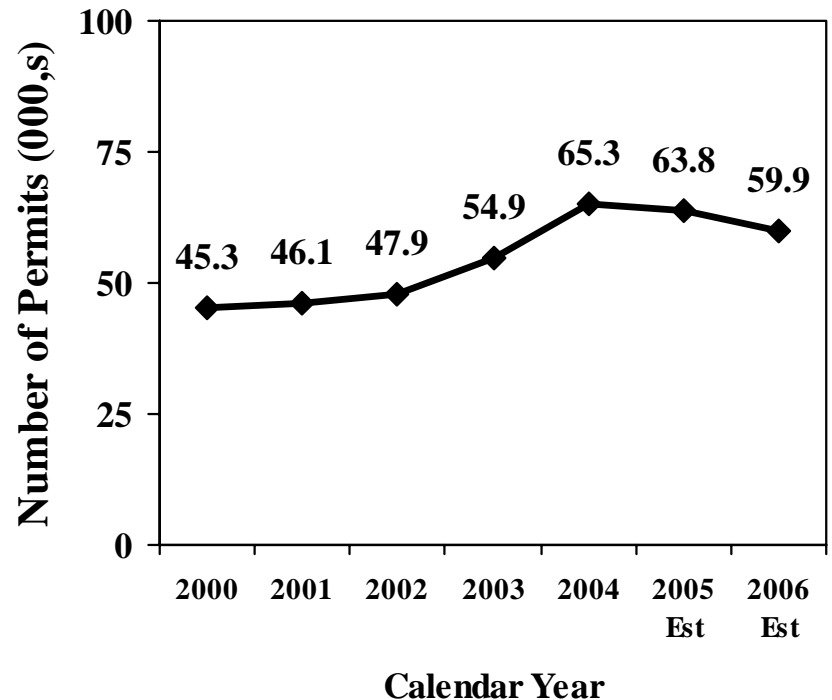


Risks to the Forecast

- Could Housing Permits Plummet?
- What Would be the Impact?

- While Blue Chip forecasts 60K permits in '06, some analysts have predicted a drop to 35K to 45K.
- What are the chances of a decline of that magnitude?

Greater Phoenix Housing Permits
(Single and Multi-Family)



While Housing is a Threat, the Forecast's Upsides are Greater

- Potential increases in capital gains could result in increased estimated income tax payments.
- Much more of the rapid housing boom occurred in tax year '05 than '04. This could result in higher final income tax payments in April.
- Increased corporate profits suggest the possibility of increased corporate income tax collections.

FY 2006 – FY 2009 Quartile Forecast Worksheet

| | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> |
|-------------------------------------|----------------|----------------|----------------|----------------|
| <u>Sales Tax</u> | | | | |
| JLBC Forecast (3/06) | 15.8% | 6.9% | 5.5% | 6.0% |
| UA - Low (1/06 revision) | 12.5% | 3.1% | 1.9% | 2.5% |
| UA - Base (1/06 revision) | 12.7% | 5.2% | 5.1% | 5.5% |
| FAC (3/1/06 Survey) | 14.5% | 8.3% | 6.3% | 6.1% |
| Average: | 13.9% | 5.9% | 4.7% | 5.0% |
| <u>Individual Income Tax</u> | | | | |
| JLBC Forecast (3/06) | 16.8% | 7.5% | 7.0% | 7.0% |
| UA - Low (1/06 revision) | 14.5% | 6.6% | 3.8% | 4.6% |
| UA - Base (1/06 revision) | 15.0% | 9.1% | 7.4% | 7.9% |
| FAC (3/1/06 Survey) | 16.4% | 9.4% | 6.0% | 6.9% |
| Average: | 15.7% | 8.2% | 6.1% | 6.6% |
| <u>Corporate Income Tax</u> | | | | |
| JLBC Forecast (3/06) | 11.2% | 5.0% | 3.4% | 1.8% |
| UA - Low (1/06 revision) | 14.8% | 7.9% | -9.9% | -13.7% |
| UA - Base (1/06 revision) | 17.1% | 19.9% | 4.4% | -1.3% |
| FAC (3/1/06 Survey) | 19.1% | 6.3% | 1.8% | 5.2% |
| Average: | 15.6% | 9.8% | -0.1% | -2.0% |
| Overall Weighted Average: | 14.8% | 7.2% | 4.8% | 5.0% |